From: Justin Mondshine <Justin@pointstate.com>
To: Ehud Barak (ehbarak1@gmail.com) <ehbarak1@gmail.com>
CC: Zach Schreiber <Zach@pointstate.com>
Date: Wed, 10/28/2015 4:56:48 PM
Subject: FW: Saudi-Kuwaiti-Russian Pow Wow

Greetings Ehud,

Wondering if you've heard anything about what the below note discusses? What do you make of the likelihood that some understanding – even if unwritten & unsaid – comes of it?

Hope all is well.

Best,

Justin

From: Political Alpha Research [mailto:research@politicalalpha.com]
Sent: Wednesday, October 28, 2015 7:30 AM
To: Justin Mondshine
Subject: Oil: Saudi-Kuwaiti-Russian Pow Wow

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Oil: Saudi-Kuwaiti-Russian Pow Wow

October 28, 2015

Recent speculation has been rife about possible talks between Russia and Saudi Arabia regarding potential production cuts after Russia's Oil Minister recently said that Russia is ready to meet with OPEC members to discuss supply cuts. PA contacts tell us that some of the Gulf Arab states have already begun high level meetings with Russia directly about market allocations.

The Saudis were the first to meet the Russians, followed by the Kuwaitis. We understand the Kuwaitis cut their time short in NYC during the UN General Assembly to return home in preparation for a meeting with the Russians. Members of the Kuwaiti royal family recently visited Moscow to discuss the situation, and we suspect that the UAE is involved as well.

Point of the Discussions

Contacts tell us that the meetings between Russia, Saudi Arabia, and Kuwait are focusing on production allocations, as all are concerned about market share. Specifically, the talks have

revolved around the idea of establishing a guaranteed percentage allocation of each party's existing market share, which would avoid the need for steep discounts or overproduction while the exporting countries vie for the same market targets.

If a deal is consummated, Saudi Arabia's market share would be essentially off limits to the Russians and vice versa. Saudi Arabia would also like to leave Iran fighting for table scraps as its oil comes online.

Pressure to Play Ball

Saudi Arabia has been flooding the market with oil because of market share concerns, especially in Asia. To create leverage in the discussions, we also understand the Saudis have been ratcheting up pressure on Russia to play ball by:

- ***Calling Russia's Clients.*** The Saudi's have been calling on some of Russia's clientele who are not typically an economic fit for Saudi oil logistics in order to make a point to Russia about who ultimately calls the shots.

- ***Increasing Discounts.*** The Saudis are currently discounting exports to Asia by about $1.65 per barrel -- which is HUGE. Prices are typically adjusted in increments of $.25/$.50 per barrel.

- ***Building Inventories.*** During the process the Saudis are now building record-level crude oil inventories (now 326.6mm barrels, up 6.4mm barrels in August and the highest level since 2002).

Bottom Line

The Saudis and Kuwaitis have begun meetings with the Russians about market share allocations. PA is skeptical that an agreement comes out of this. More likely is that Putin pushes back on the Saudis with his own oil machine muscle. However, if they did manage to reach some form of understanding, there likely won't be an official statement. Future export numbers, and to a lesser degree oil discounting, will provide an indication -- not production numbers. So keep an eye on the stats.

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